

# INVESTMENT REPORT



ISSUE SEVENTY NINE

JULY 2009

## INVESTING WITHOUT A PARACHUTE

By Magnus Heystek—Investment Strategist

THE twelve month-period in investment markets from the 1<sup>st</sup> July 2008 to 30 June 2009 is one that most participants, either as an investor, fund manager or advisor would prefer to forget.

It was the worst of times imaginable, especially in the period after 15<sup>th</sup> September 2008 when investment bank Lehman Brothers went to the wall. If ever the global financial markets faced a “systemic risk” of disintegrating, this was it. And for a time in the days and weeks following the failure of an investment bank “too big to fail”, it looked like it would.

Inter-bank lending came to a standstill; the volatility index on the Chicago Board of Options (VIX) went to record levels, while the Libor-rate rose to levels unheard of. And naturally, equity markets plunged in one of the most severe corrections in more than 50- years.

The big question, however, was how did the various investment classes available to local retail investors perform over this period of time? The answer might come as a surprise to some, especially those who had a vested interest in promoting a certain line of investment products.

The investment performance of these various asset classes and particular funds also needs to be judged against a broader argument: passive versus active investing.

In the run-up to this period this was an issue debated on many levels. The “passive investing” school generally had a friendly and uncritical press.

The Satrix 40, for instance, almost became the panacea for all investments objectives. “Just buy the Satrix- 40 and let the market do the work for you. You don’t need an active manager,” was the mantra repeated time after time.

It sounded too good to be true.

One would have found this precious nugget of advice in virtually every newspaper, magazine and radio shows in the run-up to the meltdown. The first two quarters of 2008 was characterized by a sharp run-up in commodities.

At the time towards the end of June last year the weighting of commodities in the Satrix 40, for instance, was as high as 70%, making this investment product very vulnerable to a correction in commodity prices.



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### SOUND ADVICE IS PRICELESS

BAD INVESTMENT DECISIONS COST THE AVERAGE INVESTOR MORE THAN R3,5 MILLION OVER A LIFETIME. AVOID THESE COSTLY LESSONS BY GETTING GOOD ADVICE FROM ONE OF SA’S LEADING INDEPENDENT ADVISORY FIRMS

And being a passive investment, there would be no active involvement by a living and breathing human being to say, “whoaaaa.....this party is getting out of hand,” and take some profits.

Investing in a Satrix or any other exchange traded fund (ETF) can be likened to investing without a parachute. While the going is good it's good. When markets turn, as they did viciously in the second half of last year, things are not so simple anymore...

During this time I was taken to task several times for daring to suggest that the Satrix40 was not suitable for most investors. On several occasions on the “*Geldsake met Moneyweb*” -programme on RSG-radio, I suggested that investors needed to take some time to read the instruction manual of this product.

This was (is) a high risk investment with a volatility-factor too high for most average investors, I stated on many occasions. This did not prevent the investing public from pouring hundreds of millions of rands into Satrix and other exchange traded fund products.

I have always maintained that the advantages of a good active fund manager are only fully appreciated during times of volatility and a sharp downturn. This is when the investment skills, or lack thereof, become apparent. This is when an active fund manager earns his or her money.

Have a look at the table hereunder. I took a random number of funds that I am familiar with and have been recommending for a long time across all asset classes in order to determine precisely what the outcome was.

**Month-End performance data as at 01 Jul 2009**  
(values for periods greater than one year are annualised)

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Absa Bond Fund A	-1.10%	-0.58%	11.41%	5.11%	7.46%	
Allan Gray Balanced Fund A	-1.72%	4.40%	2.61%	9.83%	19.37%	
Allan Gray Equity Fund A	-2.89%	6.74%	-6.76%	7.96%	22.58%	23.00%
Allan Gray Stable Fund A	-0.29%	2.28%	11.93%	11.70%	14.71%	
Allan Gray-Orbis Global Fund of Funds A	0.01%	3.77%	0.72%	9.60%	12.33%	
Coronation Balanced Plus Fund A	0.30%	9.32%	-0.53%	8.91%	19.65%	15.09%
Coronation Strategic Income Fund A	-0.02%	1.10%	11.85%	8.74%	9.63%	
Coronation Top 20 Fund A	-2.51%	13.73%	3.06%	11.63%	25.02%	
Investec Opportunity Fund R	0.61%	6.98%	-3.58%	9.15%	18.59%	17.37%
Investec Value Fund R	1.95%	20.46%	15.70%	8.35%	22.40%	25.46%
Peregrine Beta Equity Fund B2	-0.93%	12.60%	-14.07%	4.98%		
Prudential Equity Fund A	0.37%	10.56%	-4.06%	10.48%	24.46%	
PSG Alphen Equity Fund of Funds A	-0.35%	8.86%	-17.52%	0.33%	15.61%	
Satrix 40 Portfolio A	-3.96%	9.47%	-25.25%	4.33%		
SIM Balanced Fund R	-0.38%	8.87%	-8.95%	6.27%	16.85%	12.68%

I had no pre-determined outcome in mind when I started this exercise:  
I merely wanted to verify whether my recommendations were sound. Astonishingly so, it would seem.

Firstly, I was astounded to find that the Investec Value Fund has massively outperformed the Satrix40 over the one year period in question. Also, it would seem over all the other periods used in this calculation.

A return of 15,7% for the Investec Value Fund versus a decline of 25,25% for the Satrix40 is not a timing issue or luck or anything else. In my view this is due to the investment skills of John Biccard who has been running this fund for almost nine years now.

During an investment presentation in May last year at Sun City for investment advisors both John Biccard & Sam Houllie, head of equities at Investec, warned the 60-odd financial advisors present that the commodity super cycle was about to pop.

He flashed a chart on the screen that showed the biggest divergence in valuations between commodities and financials for more than 50 years. It was flashing a sell- signal louder than 50 000 vuvuzelas in your ear at Ellis Park...

The Coronation Top 20 is another actively managed fund that has managed to handsomely beat the Satrix 40, over all the periods measured in the table.

But it was the performance of the Balanced Funds- Allan Gray, Coronation and even the SIM Balanced - that bear further scrutiny. It could be argued that the Value Fund and Coronation Top 20, while being excellent funds, might still be too volatile for the not-so faint hearted.

I think that any fund that managed to return a positive 2.61% over the period in question, like the Allan Gray Balanced, did an excellent job considering the extreme conditions encountered along the way.

**THAT'S WHY I HAVE TO AGREE WITH PETER BROOKS FROM OLD MUTUAL IN MANY RESPECTS WHEN HE SAYS THAT MOST AVERAGE INVESTORS SHOULDN'T LOOK ANY FURTHER THAN A PORTFOLIO CONSISTING OF TWO OR THREE GOOD BALANCED FUNDS TO FORM THE CORE OF THEIR INVESTMENT PORTFOLIOS.**

High-equity funds and ETF's can be used as satellite funds around the core for some added performance but cannot be used as the core. Investors do all the wrong things when markets soar and plunge.

Worldwide academic research shows clearly that the average investor puts more money in when markets are rising, often ignoring the warning signs, and pull out when markets plunge, only to miss the upturn.

*\*Magnus Heystek presents "Geldsake met Moneyweb" on RSG every Friday afternoon from 5:30 to 6:00 pm.*

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## INVESTMENT STRATEGIST

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He obtained a BA (Hons) degree from RAU and started his career as an investment journalist with Beeld in 1976, becoming the Business and Investment Editor of The Star in 1986.

During his career as an investment journalist, he attended countless international investment conferences across the world, including meetings of the International Monetary Fund and World Bank. He was founder of The Star Investors Club, which he ran for ten years until 1998 when he sold his investment business to Citadel.

He wrote his popular column Money Matters in The Star and other newspapers across the country for more than 14 yrs. Magnus initiated the first phone-in programme on personal finance on Radio 702, which he ran for 11 years.

He has frequently appeared on local television including the 52-part series, 'The World of Money', which was based on the book with the same title.

He is the author of several books on investments and retirement planning including 'Making Money Made Simple' (co-authored with Noel Whittaker), 'The World of Money', 'Don't Say You Haven't Been Warned', 'Retirement: The Amazing and Scary Truth' (co-authored with Bruce Cameron) and numerous other books.

Magnus Heystek presents "Geldsake met Moneyweb" on RSG every Friday afternoon at 17h30.

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TO CREATE LONG-TERM WEALTH YOU NEED TO ACCEPT SOME DEGREE OF RISK.

THE BIGGEST RISK OF ALL IS NOT TO TAKE ANY RISK AT ALL.

THE GREATEST CONTRIBUTION WE CAN MAKE AS INVESTMENT ADVISORS IS TO TRY AND ACHIEVE

THE HIGHEST POSSIBLE RETURN WITH THE LOWEST POSSIBLE RISK.

## TAX & ACCOUNTING

**GAVIN BUTCHART** joined Brenthurst Wealth in March 2007 and presently heads up the tax and accounts department. Gavin assists in the completion of tax returns as well as application for foreign exchange tax clearance on behalf our clients. Gavin has an accounting diploma and six years experience in the accounting field whilst working at various prestigious law firms. He is currently studying towards a B.Comm degree.

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